



IPO Report

24th Oct '24

Snapshot

Company is the flagship infrastructure, engineering and construction company of the Shapoorji Pallonji group (i.e., the group's leading engineering and construction company), a diversified Indian conglomerate, and have a legacy of over six decades. Company have a strong track record of executing numerous complex, challenging and unique engineering, procurement and construction ("EPC") projects both within India and internationally. According to the Fitch Report, company is one of India's largest international infrastructure companies, as per the 2023 ENR (Engineering News-Record, US) Top International Contractors rankings, based on International Revenue for the Financial Year 2023.

VALUATION

Company is bringing the issue at price band of Rs 440-463 per share at p/e multiple of 38x on post issue FY24 PAT basis.

Company has strong track record of timely execution of large-scale, complex and high-value projects. Company has large order book and strong financial performance. Company has collaboration among internal teams and with JV counterparties, and a strategic equipment base leading to strong execution capabilities. Also, company has experienced leadership team with Shapoorji Pallonji Group parentage.

Price Band (Rs./Share)	440-463
Opening date of the issue	25th Oct '2024
Closing Date of the issue	29th Oct '2024
No of shares pre issue	34,07,38,269 Eq Shares
Issue Size	Rs 5430 Cr
Fresh issue	Rs 1250 Cr
Offer For Sale	Rs 4180 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	32
Employee Discount	Rs 44/share

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 5,83,69,329 Eq Shares)
Non-Institutional	15% of the offer (Approx 1,75,10,800 Eq Shares)
Retail	35% of the offer (Approx 4,08,58,532 Eq Shares)
Employees	5,96,658 Eq Shares
Lead managers	ICICI Securities, DAM Capital Advisors, Jefferies India, Nomura Financial Advisory, Nuvama Wealth Mgt, SBI Capital Markets
Registrar to the issue	Link Intime India Pvt. Ltd

WHAT WE LIKE

Strong Track Record of Timely Execution of Large-Scale, Complex and High-Value Projects

Company is one of the leading infrastructure construction companies involved in the execution of large and complex projects both in India and overseas. Company focus on large, complex, and high-value projects and have a strong track record in efficient project management, execution and on-time delivery of projects across verticals and geographies, with a substantial majority of company's projects being executed ahead of or on schedule.

Diversified Order Book across Geographies, Clients, and Business Verticals, Longstanding Relationships with Clients Globally, and Strong Financial Performance

As of June 30, 2024 and 2023 company's order book amounted to ₹317,474.27 million and ₹352,402.15 million, respectively. As of March 31, 2024, 2023 and 2022, company's order book amounted to ₹309,609.90 million, ₹304,057.67 million and ₹328,048.34 million, respectively. Subsequent to June 30, 2024, company have won projects worth ₹59,367.37 million until September 30, 2024. Additionally, as of September 30, 2024, company was an 'L1 bidder' in projects worth ₹107,323.59 million

Experienced Leadership Team with Shapoorji Pallonji Group parentage

Company is the flagship, infrastructure engineering and construction company of the Shapoorji Pallonji Group (i.e., the group's leading engineering and construction company), one of the leading conglomerates in India operating for over 150 years in the construction industry.



COMPANY BACKGROUND

During the period comprising the last eleven financial years and the three-month period ended June 30, 2024, company have successfully completed 79 projects across 17 countries with a total historic executed contract value of ₹563.05 billion. As of June 30, 2024, company have 65 active projects (i.e., ongoing projects) across 12 countries, aggregating to an order book of ₹317.47 billion. Among large infrastructure construction companies in India analysed in the Fitch Report, company had the highest ROCE and EBITDA margins and the second highest ROE and PAT margins for the Financial Year 2024, and company's PAT has grown at the fastest rate between the Financial Years 2022 and 2024 (Source: Fitch Report). Over the years, company have expanded its presence globally and in particular across Asia, Africa and the Middle East. Company have undertaken many complex, challenging, unique and 'first of its kind' infrastructure projects in India and the rest of the world (Source: Fitch Report).

Company's projects cover five major infrastructure business verticals:

- Marine and Industrial, covering ports and harbour jetties, dry docks, wet basins, breakwaters, outfall and intake structures, liquefied natural gas tanks and material handling systems.
- Surface Transport, covering highways and roads, interchanges, mining related infrastructure and railways.
- Urban Infrastructure, covering elevated and underground metro works, bridges, flyovers and elevated corridors.
- Hydro and Underground, covering dams and barrages, tunnels (including large road tunnels) and underground works, water and irrigation.
- Oil and Gas, covering both offshore and onshore oil and gas projects.

Through company's extensive and diversified experience and systematic knowledge management practices, company have developed a project management system that enables efficient planning, monitoring, control and timely delivery of the infrastructure projects that company undertake. Company's continuous pursuit of excellence in knowledge management is reflected in the recognition accorded to company through the MIKE (Most Innovative Knowledge Enterprise) award at Global and India levels. This award is given by the International Global MIKE Study Group, comprising world experts in effective knowledge management and innovative practices. Company won the Most Admired Knowledge Enterprise (MAKE) award in 2016 and 2017. The MAKE award was at three levels – India, Asia and Global; and company was adjudged winner at all three levels in 2016 and 2017. In 2018, the MAKE award was replaced by the MIKE (Most Innovative Knowledge Enterprise) award. Company won the MIKE award from 2018 to 2023 at India and Global levels (there is no Asia-level MIKE award). Company also won the Outstanding Global MIKE Award in 2023. Company was also accorded the status of Five Star Export House in accordance with the provisions of the Foreign Trade Policy 2023 by the Indian government in 2023.

Further, company maintain a strategic equipment base comprising a wide range of heavy machinery and specialized equipment. This equipment base, along with the ability to source other high-tech equipment and company's in-house capabilities in managing specialized equipment, has been instrumental in winning several complex projects, such as the Atal tunnel, the High Speed Railway Project, the Delhi – Meerut regional rapid transit system, Delhi Metro Phase IV projects, and the second liquid cargo berth at Dahej, Gujarat for Gujarat Chemical Port Limited.

Company also benefit from the strong parentage of the Shapoorji Pallonji Group. The Shapoorji Pallonji Group has a legacy of over 150 years, and its strong reputation, global presence and extensive industry experience assists company in the growth of its business and operations. Additionally, company gain access to the Shapoorji Pallonji Group's network enabling strategic collaborations, business development opportunities and knowledge sharing. Further, company is strategically guided by its board of directors and the leadership of its management team, comprising five Key Managerial Personnel and 19 Senior Management Personnel. Company's key management personnel have 35 years of average experience with an average of 23 years at company's organization. According to the Fitch Report, the Indian infrastructure industry has grown at a compounded annual growth rate of 12.2% from ₹5,041.1 billion in the Financial Year 2018 to ₹8,973.0 billion in the Financial Year 2023. Further, Fitch estimates India's infrastructure industry to grow at a compounded annual growth rate of 9.9% from ₹8,973.0 billion in the Financial Year 2023 to ₹14,380.3 billion in the Financial Year 2028. Company is well positioned to capitalize on this opportunity. Company is dedicated to integrating environmental, social, and governance ("ESG") best practices into its business and ensuring a sustainable and responsible approach to company's operations. Company have 41 environmental auditors to track its environmental footprint. Company also have a team of over 250 health, safety and environment ("HSE") professionals across its organization, including 31 dedicated environment professionals. Over 65% of the members of this team have engineering and advanced safety degrees.



INVESTMENT RATIONALE

<p><i>Collaboration among Internal Teams and with JV counterparties, and a Strategic Equipment Base leading to Strong Execution Capabilities</i></p>	<p>Collaboration among company’s internal teams, including those relating to operations, design, human resources, and construction plant and equipment (“CPE”), is instrumental in facilitating strong execution capabilities. Further, to drive innovation and ensure efficient construction methodologies, company have established the Core Methods and Engineering Group (“CMEG”). Led by two senior management executives and comprising other senior-level personnel, the CMEG plays a pivotal role in assisting business units (“BUs”) with the planning and development of innovative, construction-friendly, and cost-efficient construction methodologies. This collaboration extends to both ongoing projects and those under bidding. Furthermore, company’s project planning process involves close coordination between multiple teams, including BUs, CMEG, company’s construction plant and equipment, design and engineering, finance, supply chain management, human resources, and information technology teams. This collaborative approach ensures the development of comprehensive project plans with fixed timelines, dedicated resource allocation, detailed risk assessment, and budgeting. Company’s organizational culture fosters an execution-driven mindset committed to achieving project milestones with precision and effectiveness. Company’s workforce comprises highly skilled professionals with strong technical expertise, and their knowledge and skill-sets help company solve complex challenges and deliver timely solutions to its clients.</p>
<p><i>Knowledge Management and Innovation Practices</i></p>	<p>Company place significant importance on procuring and harnessing knowledge from its prior projects in its ongoing and future projects. Company have implemented an operational excellence model, which encompasses the pillars of people, process, technology, and relationships, on all its projects. Company have established a dedicated department called the Knowledge Services Group which is responsible for driving knowledge management processes across the organization. Company follow a “Learn Before”, “Learn During” and “Learn After” framework which acts a pivot around which its knowledge processes are embedded into the project lifecycle. This model ensures that company constantly strive for improvement and fosters a culture of continuous learning. In 2023, company launched the Afcons Talent Management Academy which aims to enhance the knowledge and capabilities of its engineers.</p>
<p><i>Strong Risk Management, Project Selection and Dispute Resolution Processes</i></p>	<p>Company recognize the inherent risks prevalent in the infrastructure sector in India and globally and operate a systematic risk management system that assists in identifying, measuring and monitoring the various risks that may arise in its operations. Furthermore, company have a risk-informed decision-making culture throughout its operations. To facilitate this approach, company have established a team of experienced senior management personnel within company that is responsible for analysing and evaluating all proposed new bids and investments. Their assessment includes a review of various aspects, including credit risk, market risk, and operational risk associated with such bids or capital expenditures. This evaluation ensures that company’s decision-making processes are well-informed and consider the potential risks involved</p>



OBJECTS OF OFFER

Offer for Sale

The proceeds from the Offer for Sale shall be received by the Selling Shareholder after deducting their proportion of Offer expenses and relevant taxes thereon.

Fresh Issue

Company proposes to utilise the Net Proceeds towards funding the following objects

1. Capital expenditure towards purchase of construction equipments
2. Funding long term working capital requirements
3. Prepayment or scheduled repayment of a portion of certain outstanding borrowings and acceptances availed by company
4. General corporate purposes

RISKS

If company fail to qualify for, or win new contracts from project owners, its business, financial condition, results of operations, prospects and cash flows could be adversely affected.

Source:RHP

INDUSTRY OVERVIEW

Opportunity for construction activities in Irrigation

In 2023, the National Mission for Clean Ganga completed 38 projects, bringing the total number of completed projects to 270. Additionally, 45 new projects worth INR 54.7 billion were sanctioned, raising the cumulative total to 454 sanctioned projects valued at INR 383.9 billion. In terms of sewerage infrastructure, 21 projects aimed at creating or rehabilitating 938 MLD (Megalitres per Day) of sewage treatment capacity were approved between January and December 2023. During the same period, 10 projects were completed, resulting in the creation or rehabilitation of 821 MLD of sewage treatment capacity. To date, 197 sewerage infrastructure projects have been sanctioned in the Ganga Basin, aimed at creating 6,208 MLD of sewage treatment capacity and laying 5,272 km of sewer network.

The Pradhan Mantri Krishi Sinchayee Yojana – Accelerated Irrigation Benefit Programme (PMKSY-AIBP), including Command Area Development & Water Management (CAD&WM), has been approved for implementation with a budget of INR 239.2 billion (central assistance) for the period FY2021-26. This funding aims to complete 60 ongoing AIBP and 85 ongoing CAD&WM projects, as well as provide financial assistance for new major and medium irrigation projects. Additionally, the funding for National Projects, including the Renuka and Lakhwar Projects, has also been approved.

Technology in the irrigation sector has evolved significantly over the past 10 years regarding construction equipment, water transfer techniques and types of irrigation systems. Innovative technology-led irrigation systems such as solar-powered lift micro-irrigation are gaining prominence over conventional flooding methods of irrigation. Greater thrust is also being given to drip and sprinkler irrigation systems, and efficient water-use mechanisms. With all these developments, the sector certainly offers significant opportunities for EPC contractors, and technology and equipment suppliers.

According to the Department for Promotion of Industry and Internal Trade under the Ministry of Commerce and Industry, India's public irrigation sector ranks among the largest globally. As of September 4, 2024, the National Infrastructure Pipeline (NIP) has expanded to encompass over 673 projects within the irrigation sector, with a total project value of USD 158.2 billion.

Conclusion

India is projected to remain the fastest-growing major economy, with a real GDP growth rate forecasted at 6.8% for FY2026-27. Global construction industry growth will largely be driven by expanding construction investment in emerging markets, which are expected to achieve an annual average real growth of 3.9% y-o-y between CY2024 and CY2033, contributing to the global construction industry's expansion from USD 5.7 trillion in CY2023 to an anticipated USD 7.8 trillion by CY2029, with India, Indonesia, Vietnam, the Philippines, and Bangladesh among the markets experiencing the highest growth rates in the region over the coming decade. With an average annual growth rate of 4.9% y-o-y from CY2024 to CY2033. Sub-Saharan Africa (SSA) is poised to achieve the fastest construction industry growth globally. This growth is propelled by favourable demographic trends, an expanding middle class, and substantial infrastructure investments in certain markets relative to their construction industry value. As per Fitch Solutions, the Indian Construction industry value stood at INR 23,978.0 billion as of FY2023. It is projected to be the fastest growing construction market in the world growing at a CAGR of 9.5% to 10% between FY2023-FY2028 to reach INR 38,508.9 billion market size by FY2028. The key driver for growth being stable government's support for infrastructure development and expanded private capex in key sectors and publicprivate partnerships.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	Q1 FY 2025
Total Revenue (A)	110189.60	126373.82	132674.95	31543.60
Total Expenditure (B)	100828.89	113267.75	119024.78	28008.87
EBIDTA	9360.71	13106.07	13650.17	3534.73
EBIDTA Margin	8.50	10.37	10.29	11.21
Other Income	2505.83	2067.08	3793.79	591.10
Depreciation	3553.68	4715.77	4945.34	1302.30
EBIT	8312.86	10457.38	12498.62	2823.53
Interest	4247.33	4466.63	5772.58	1469.10
PBT	4065.53	5990.75	6726.04	1354.43
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	4065.53	5990.75	6726.04	1354.43
Exceptional	0.00	0.00	0.00	0.00
PBT	4065.53	5990.75	6726.04	1354.43
Tax	489.47	1882.15	2228.65	438.57
PAT	3576.06	4108.60	4497.39	915.86
NPM	3.25	3.25	3.39	2.90
ROE%	13.24	13.02	12.58	2.50
EPS	10.49	12.06	13.20	2.69
Eq Cap	719.70	719.70	3,407.40	3,407.40
Net Worth	27,028.00	31,772.78	35,975.21	36,848.24

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Afcons Infrastructure Limited (Company)*</i>	<i>10</i>	<i>13.20</i>	<i>--</i>	<i>12.58</i>	<i>104.92</i>
Peers					
Larsen & Toubro Limited (L&T) (Consolidated)	2	93.96	37.14	15.24	623.15
KEC International Limited (KEC)	2	13.49	74.67	8.68	155.32
Kalpataru Project International Limited (KPIT)	2	31.37	42.30	10.17	308.36
Dilip Buildcon Limited (DBL)	10	13.75	37.63	4.44	298.85

(Source: RHP)



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